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July 14, 2004

VIA HAND DELIVERY

Mark D. Shonkwiler, Esquire
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

Re: MUR #5405; Apex Healthcare and James C. Chao

Dear Mr. Shonkwiler:

This letter responds to your E-mail request of June 10, 2004, seeking clarification of certain information provided in the voluntary disclosure we submitted to the Federal Election Commission ("FEC") on May 27, 2004 on behalf of Apex Healthcare ("Apex") and Mr. James C. Chao. Specifically, your E-mail poses three questions, which are restated below and after which a response to each is provided.

As this letter serves to supplement the information contained in our May 27th disclosure, it is submitted in contemplation of settlement and conciliation proceedings and, therefore, is not admissible pursuant to Rule 408 of the Federal Rules of Civil Procedure. In addition, we request that the Commission maintain the confidentiality of this letter pursuant to applicable statutes, rules and regulations.

1. Provide specific information about federal contributions Mr. Chao and Apex made through conduits during the early to mid-1990s.

During the early to mid-1990s, federal contributions were made through conduits on twelve (12) occasions, six via family members and six through employees. A chart identifying each conduit, the date and amount of the contributions, and the name of each recipient, is attached. (See, Exhibit A).

2. What sort of due diligence did Apex and Mr. Chao perform in connection with the statement that Mr. Chao recalls making conduit contributions during the early and mid-1990s, but not between 1998 and 2001? Specifically, was there (1) any effort to review the financial records of Apex and Mr. Chao to identify unexplained disbursements to persons who previously and/or subsequently served as conduits, so as to determine whether these disbursements would refresh Mr. Chao's recollection; or

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COUNSEL

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2) interviews [of] any of the persons who served as conduits both during the early to mid-1990s and between 2002-2003 as to their recollection of conduit contributions between 1998 and 2001?

Mr. Chao initially did not recall making any federal contributions through conduits between 1998 and 2001 and was unable to identify any records -- personal or corporate -- indicating that any such contributions were made during this period. Mr. Chao asked counsel to conduct a review of the FEC's contributor database for possible contributions he was unable to recall. Counsel's research confirmed that Mr. and Mrs. Chao made *personal* contributions to Schakowsky for Congress in January and October 1998, but identified no record of any other federal contribution by any family member or Apex employee between 1998 and 2001.

In connection with preparing the May 27, 2004 submission, counsel interviewed Apex employees who served as conduits for the contributions to Hynes for Senate in 2003. None of these individuals recalled serving as conduits for federal contributions between 1998 and 2001. Their recollections are consistent with the results of counsel's review of the FEC's contributor database.

3. Please provide complete information regarding Apex's disbursements or distributions to Mr. and Mrs. Chao between 1999 and 2003, so that we can better evaluate the claim that there was no reimbursement of their personal contributions. While the use of regular salary or bonus payments that occurred in the ordinary course of business would not be regarded as a reimbursement, the receipt and/or use of other corporate funds for or as a result of the contributions could represent a violation.

Apex is a subchapter S corporation, and Mr. Chao is the corporation's sole shareholder. During the period between 1999 and 2003, Mr. Chao did not receive a salary from Apex. Rather, he received distributions of profits once or twice a month in varying amounts. As Apex's sole owner, the timing and amount of these distributions were made at Mr. Chao's discretion.

Upon receipt of your June 10 E-mail, we asked Mr. Chao to go back and review his records again in order to help clarify the situation. In so doing, Mr. Chao discovered two checks, not previously identified, indicating that two of the contributions previously believed to be personal were in fact reimbursed by Apex. These checks, which are

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enclosed herein as Exhibit B, are: (1) a check issued by Apex to Mr. Chao on March 4, 2003, for \$4,000 (this corresponds to a previously identified Hynes contribution by Mr. Chao of \$4,000 on March 3, 2003); and (2) a check issued by Apex to Mrs. Chao on June 30, 2003 for \$6,000 (this corresponds to a previously identified Hynes contribution by Mr. Chao of \$6,000 on June 30, 2003). The net effect of these checks is to reduce the amount claimed by the Chaos as personal contributions from \$18,500 to \$8,500. Other than these two checks, Mr. Chao has not identified any other distribution or payment indicating that he or his wife were reimbursed by Apex for their federal contributions during the time period between 1999 and 2003.¹

As set forth in our May 27, 2003 submission, Apex did issue a number of checks made out to "cash," and Mr. Chao did draw from these funds to reimburse Apex employees for their contributions to Hynes for Senate. See, Letter to Mark Shonkwiler, Exhibit B. In all, during 2003 and the first week of 2004, Apex issued checks related to reimbursements and payable to "cash" totaling \$53,000. Of this amount, Mr. Chao believes that \$41,500 was used to reimburse Apex employees for their contributions to Hynes for Senate. The remaining \$11,500 was used by Mr. Chao to cover various business related expenses. There is no indication that this cash was used to reimburse Mr. and Mrs. Chao for their personal contributions.

¹ In his recent review, Mr. Chao also discovered an Apex check payable to Marian C. Stang for her June 30, 2003 Hynes contribution of \$6,000. This payment, and Apex's reimbursement, was previously disclosed, except that it originally was believed to have been reimbursed in cash. A copy of this check is also attached, as Exhibit C.

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We hope the information provided above supplies the clarifications you require. We would also like to take this opportunity to reiterate our desire to enter into pre-probable cause conciliation discussions at your earliest convenience. Should you have any questions or require additional information, please do not hesitate to call.

Yours truly,



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Enclosures

cc: Ann Marie Terzaken (w/enclosures)

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INDEX OF EXHIBITS

- Exhibit A Contributions in Early to mid-1990s
- Exhibit B Apex Checks to James and Annie Chao
- Exhibit C Apex Checks to Marian C. Stang

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CONFIDENTIAL - SUBMITTED FOR NEGOTIATION PURPOSES ONLY

Contributions in early to mid-1990s

DATE	CONTRIBUTOR	AMOUNT	FEDERAL CANDIDATE OR ORGANIZATION
08/04/94	Charissa Chao	\$1,000	Committee to Elect Gary Ackerman
08/04/94	Philip Chao	\$1,000	Committee to Elect Gary Ackerman
10/23/95	Pak Yung Leung	\$1,000	Illinois Democratic Party
10/23/95	Frances Mattivi	\$1,000	Illinois Democratic Party
10/23/95	Tony Wai-Chung Ng	\$1,000	Illinois Democratic Party
12/31/95	Frances Mattivi	\$1,000	Friends of Dick Durbin Committee
06/30/96	Frances Mattivi	\$1,000	Friends of Dick Durbin Committee
09/25/96	Charles Chao	\$ 500 \$ 500	Friends of Dick Durbin Committee
09/25/96	Grace Chao	\$ 500 \$ 500	Friends of Dick Durbin Committee
09/25/96	Philip Chao	\$ 500 \$ 500	Friends of Dick Durbin Committee
10/10/96	Michelle Moy Leung	\$1,000	Vermont State Democratic Federal Campaign Committee
03/26/97	Grace T. Chao	\$1,000	Carol Moseley-Braun for US Senate

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APEX HEALTHCARE, INC.
1751 S. NAPERVILLE RD., SUITE 104
WHEATON, IL 60187

OLD KENT BANK-ILLINOIS
70-688-719

March 4, 03

PAY TO THE
ORDER OF

James Chao

***4,000.00**

***Four Thousand**00/00**

DOLLARS

MEMO

James C. Chao

Check or Cash
Security Features Included

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MR 03 04

MR 5 07

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James C. Chao

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042000314
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C

APEX HEALTHCARE, INC.
440 QUADRANGLE DRIVE, STE. B
BOLINGBROOK, IL 60440

OLD KENT BANK-ILLINOIS
70-9967719

20556

PAY
TO THE
ORDER OF

Marian Stang

July 2, 2003
\$ 4,000 ⁰⁰/₁₀₀

Four Thousand

⁰⁰/₁₀₀

DOLLARS

MEMO

James C. Cho
AUTHORIZED SIGNATURE

[REDACTED]

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2003

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DO NOT WRITE / SIGN / STAMP BELOW THIS LINE
DEPOSITORY BANK ENDORSEMENT

Marian Stang